

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**  
**(“the Authority”)**

**HELP II Loan Program - Strategies for Change (“SFC”)**

**Agenda Item #6 - Amendment to Resolution Number HII-191**

**June 26, 2014**

**SUMMARY OF THE REQUEST AND STAFF’S RECOMMENDATION:**

The Authority authorized a HELP II loan modification for SFC at its September 27, 2012 meeting which allowed SFC to extend its amortization schedule by five years from November 2022 to November 2027. The request was authorized to assist SFC with significant cash flow challenges and the extension reduced SFC’s monthly payment to the Authority by roughly \$1,400.

Presently, SFC seeks to refinance its underlying first loan and if successful, SFC will further reduce its monthly debt obligation by roughly \$4,500<sup>1</sup>. In order to refinance the underlying first, SFC must obtain the Authority’s approval to again subordinate its loan in favor of another lender. The Authority is already in second position behind another lender. If the Authority elects not to subordinate, SFC will not qualify for the beneficial refinancing.

Since the Authority’s loan modification in September of 2012, SFC’s operations have substantially improved and SFC has timely serviced the Authority’s loan. Staff reviewed SFC’s audited financial statements for the last three years. SFC appears to exhibit strong operating results and has a solid financial position with a debt service coverage ratio of 2.08x for FY 2013.

In view of SFC’s improved operations and the debt service savings to be realized with the planned refinance, staff concludes SFC is well poised to return to its original amortization schedule with the Authority. With the proposed refinance and potential reversion to the original amortization schedule, SFC’s proforma debt service coverage ratio would potentially improve to 3.21x.

Though the Authority does hold a second position lien on SFC’s real property, the fair market value of the property is substantially less than the total value of the two outstanding loans<sup>2</sup>. Returning SFC’s HELP II loan to its original HELP II loan payment of \$5,179 offers the opportunity to reduce the length of time the Authority is exposed to risk associated with inadequate security.

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<sup>1</sup> The proposed refinance will allow SFC to reduce its interest rate from 7% to approximately 4%, resulting in a monthly savings of \$4,500 or \$54,000 annually. For the first five years, the new monthly payment will be \$5,489 compared to the current monthly payment of \$9,996. After the first five years, the interest rate will adjust to the five-year Treasury rate plus 2.66%.

<sup>2</sup> The Authority’s loan to value ratio is 95%. The cumulative loan to value ratio for the secured property is 118%.

Staff recommends authorizing the subordination to allow SFC to refinance their existing first and staff also recommends modifying SFC's HELP II loan to the maturity date to July 1, 2023, resulting in the original monthly loan payment of approximately \$5,179..

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY**

**The HELP II Loan Program**

**Second Amendment to Resolution Number HII-191**

**SECOND AMENDMENT TO RESOLUTION APPROVING EXECUTION AND  
DELIVERY OF HELP II PROGRAM AGREEMENTS WITH CERTAIN  
PARTICIPATING HEALTH INSTITUTIONS**

WHEREAS, the California Health Facilities Financing Authority (the “Authority”), a public instrumentality of the State of California, is authorized by the provisions of the California Health Facilities Financing Authority Act (the “Act”) to provide secured or unsecured loans to participating health institutions to finance the acquisition, construction, expansion, remodeling, renovation, improvement, furnishing, or equipping of a health facility;

WHEREAS, the Authority established the HELP II Loan Program (the “Program”) to provide loans to participating health institutions as authorized by the Act;

WHEREAS, on March 29, 2007 Strategies for Change (the “Borrower”), a California nonprofit corporation and participating health institution, was approved for a Program loan in the amount of \$750,000, of which \$ \$492,583.81 remains outstanding (Resolution No. HII-191);

WHEREAS, on September 27, 2012 the Authority approved certain modifications to the Program loan to extend the maturity date from November 1, 2022 to November 1, 2027 (amendment to Resolution No. HII-191); and

WHEREAS, the Borrower, to refinance debt, seeks the Authority’s approval for subordination of the Authority’s lien position on certain real property;

NOW THEREFORE BE IT RESOLVED by the California Health Facilities Financing Authority, as follows:

Section 1. The Authority hereby approves the request for subordination with a second (2<sup>nd</sup>) lien position on the real property located at 4343 Williamsborough Drive, Sacramento, California, under the condition that the maturity date shall be amended to July 1, 2023, resulting in the original monthly Program loan payment of approximately \$5,179.

Section 2. All other provisions of Resolution No. HII-191 shall remain the same.

Date Approved: \_\_\_\_\_